

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Strickland and Benoit Analyst: Angela Raygoza Bill Number: AB 293
Related Bills: See Legislative History Telephone: 845-7814 Introduced Date: February 09, 2007
Attorney: Doug Powers Sponsor: _____

SUBJECT: Homeowner's Property Tax Exemption/Increase Exemption Amount Beginning 2008-09 Fiscal Year

SUMMARY

This bill will increase the homeowner's property exemption from \$7,000 to \$22,000.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to reduce the property tax burden for homeowners.

EFFECTIVE/OPERATIVE DATE

As a tax levy, this bill would be effective immediately upon enactment and would specifically apply beginning with the property tax lien date for the 2008/2009 fiscal year.

POSITION

Pending.

ANALYSIS

STATE LAW

Current state law requires a taxpayer that owns real estate not used for business to be assessed a tax on that property at a specified percentage. Generally, the county where the property is located assesses this tax. For individuals that file a claim for the homeowners' exemption, the first \$7,000 of the full value of the taxpayer's dwelling is exempt from that property tax.

The California Constitution requires the Legislature to provide increases in benefits to qualified renters that are comparable to the average increase in benefits provided under the homeowner's property tax exemption.

Board Position:

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Department Director

Date

Selvi Stanislaus

3/14/07

by Lynette Iwafuchi

THIS BILL

Starting with the lien date for the 2008-09 fiscal year, this bill would increase the amount of the homeowner's property tax exemption from \$7,000 to \$22,000. By increasing the amount of the exemption, it would have the effect of decreasing the amount of property tax itemized deductions claimed on personal income tax returns.

In addition, this bill would require the exemption amount to be adjusted by the percentage change (and rounded to the nearest one-thousandth of 1%) beginning with the lien date 2009-10 fiscal year and each fiscal year thereafter using the Housing Price Index of California.

This bill would state the intent of the Legislature is to provide a comparable benefit to qualified renters that is received by homeowners.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not impact the department's programs or operations.

LEGISLATIVE HISTORY

AB 351 (Smyth, 2007-08) would increase the amount of the homeowner's property tax exemption from \$7,000 to \$27,000 for individuals that are 62 years or older. In addition, this bill would increase the nonrefundable income tax credit for qualified renters age 62 and older. This bill is currently in the Assembly Revenue and Taxation Committee.

AB 388 (Gaines, 2007-08) would increase the amount of the homeowner's property tax exemption from \$7,000 to \$25,000 beginning with the lien date for the 2008-09 fiscal year. In addition, this bill would increase the nonrefundable income tax credit for qualified renters.

AB 495 (Tran, 2007-08) would increase the amount of the homeowner's property tax exemption from \$7,000 to \$25,000 for individuals who are 62 years or older. All other homeowners would continue to receive a property tax exemption of \$7,000. In addition, this bill would increase the nonrefundable income tax credit for qualified renters age 62 and older.

AB 62 (Strickland, 2005-06), AB 185 (Plescia, 2005-06), and AB 2738 (Wyland, 2005-06) would have increased the amount of homeowner's property tax exemption from for individuals 62 years or older. All have failed to pass out of the Assembly Revenue and Taxation Committee.

OTHER STATES' INFORMATION

The states surveyed include *Florida, Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois, Florida, and Michigan provide homestead exemptions, similar to California's property tax exemption, in amounts of \$5,000, \$25,000, and 10% of the property value, respectively.

Massachusetts, Minnesota, and New York do not provide any general property tax exemption for homeowners.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

The revenue gain from this bill would be as follows:

Estimated Revenue Impact of AB 293 Effective with the Lien Date for the 2008-09 Fiscal Year Enactment Assumed After June 30, 2007 (\$ in Millions)			
2007-08	2008-09	2009-10	2010-11
\$0	\$24	\$41	\$42

This estimate does not consider the possible changes in employment, personal income, or gross state product that could result from this bill.

Revenue Discussion

Renters' Credit – Because this bill would only declare Legislative intent to provide a comparable benefit to qualified renters, a revenue analysis is unnecessary at this time.

Homeowners' Exemption – The income tax impact of this bill would result from smaller property tax deductions reported by taxpayers who itemize deductions on their personal income tax returns. This estimate assumes that the first due date after enactment of this bill would be November, 2008.

Based on current personal income tax return data, it is estimated that 5.8 million taxpayers filing tax returns will itemize their property taxes for the 2008 tax year. The Board of Equalization estimates the average property tax rate at 1.098%. Applying this tax rate to the increased exemption amount of \$15,000 (\$22,000 - \$7,000 = \$15,000) would generate an additional property tax savings of \$165 per taxpayer (\$15,000 x 1.098% = \$165). The decrease in itemized deductions for homeowners would be approximately \$949 million (5.8 million taxpayers x \$165 = \$949 million) for a total income tax increase approaching \$38 million, assuming an average marginal tax rate of 4% (\$949 million x 4% = \$38 million) For Fiscal year 2008-09, it was assumed that some taxpayers would adjust their payments, reducing the impact to \$24 million. Calculations in the Tax Revenue Estimate table were converted to fiscal years.

LEGISLATIVE STAFF CONTACT

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